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SUBJECT: LULA'S VISIT TO COSTA RICA - PROMOTING TRADE AND

RENEWABLE ENERGY

REF: SAN JOSE 419 NOTAL

Classified By: Classified by DCM Peter Brennan per 1.4 (d).

11. (SBU) SUMMARY: Brazilian President Luiz Inacio Lula da Silva visited Costa Rica June 2-3 to advance cooperation between the Mercado Comun del Cono Sur (MERCOSUR) and the Sistema de Integracion Centroamericana (SICA), of which Costa Rica will assume the Presidency in July, and to strengthen bilateral economic ties between the two countries. Da Silva, making the brief visit en route home after attending the swearing in of El Salvadorian President Mauricio Funes, also sought to promote the idea of Brazilian companies using Costa Rica's tariff-free access to U.S. markets (granted through CAFTA) to export sugar cane ethanol to Costa Rica, refine it there, and sell it to the U.S. President Oscar Arias was visibly delighted to host his Brazilian counterpart and hopes that his administration can further trade and renewable energy initiatives with the GOB before leaving office next year. END SUMMARY.

AN EMERGING REGIONAL TRADE PACT?

12. (C) Da Silva's visit, which reciprocated Arias, visit to Brasilia in June 2008, focused in part on plans for greater economic cooperation between MERCOSUR and SICA, with both leaders expressing interest in a trade agreement between the two regions. According to Linyi Baidal, Deputy Director of Foreign policy in Costa Rica's MFA, Costa Rica will use its presidency of SICA to "feel out" Central American interest in a free-trade agreement with MERCOSUR. Costa Rica hopes a trade agreement would help to correct the massive trade imbalance between the two regions. As Arias noted during da Silva's visit, Central American import taxes are so much lower than those of Brazil, that "for every dollar that Central America exports to Brazil, (Central America) imports twenty-four dollars." Both da Silva, and Uruguayan President Tabare Vazquez, who visited Costa Rica in April and takes over the presidency of MERCOSUR this year, used their visits to reiterate interest in opening up trade negotiations between the two regions.

RENEWABLE ENERGY AND WATER TREATMENT

13. (SBU) Da Silva and Arias also discussed the production of ethanol and the potential participation of Brazilian businesses in infrastructure projects in Costa Rica. Da Silva promised Arias technical support and technology transfer in the area of biofuels, specifically relating to sugar cane ethanol. Da Silva also presented the possibility of Brazilian companies opening up ethanol plants in Costa

Rica, in order to make use of Costa Rica's CAFTA-granted access to U.S. markets. CAFTA affords Costa Rica unlimited tariff-free access to the U.S. for originally-grown and produced ethanol, and an annual quota of 31 million gallons for third-country grown, Costa Rican-produced ethanol. Brazil would like to take advantage of that latter quota, since it currently pays 54 cents per gallon in taxes on biofuels exported to the U.S.

¶4. (SBU) Da Silva's final piece of business was to sign an agreement under which Brazil will provide technology and skills training in waste water treatment to Costa Rica's national water utility (AyA). The project will focus on smaller treatment plants, as several large plants in the San Jose metropolitan area are well advanced in planning and financing. A Brazilian company and AyA will jointly manage the project, which is related to discussions currently under way between Banco de Brazil, the Central American Bank for Economic Integration and the AyA to finance three large water treatment plants in Costa Rica.

A CELEBRITY WELCOME

¶5. (U) The often taciturn Arias could barely contain his pleasure at welcoming Lula, whom he described as "one of the most loved and admired presidents in Latin America" and as a "political farmer," "troubadour for equality," "symbol of social justice" and "poet for democracy". He offered Costa Rica as a "bridge" for Brazilian products (via CAFTA) to the United States.

COMMENT

¶6. (C) If the lavish praise and promising prose bears fruit, both countries stand to gain from closer relations, but Costa Rica (and the Arias administration) may be the bigger winners. Renewable energy sources are high on the GOCR,s agenda and appeal to Costa Rica,s green image. A tangible benefit from CAFTA, such as local ethanol production, would also be welcome, although this will take time. Waste water treatment is a major challenge here, so Brazilian assistance may help the GOCR make long-needed progress, especially in the crowded Central Valley around San Jose.

¶7. (C) Legacy may be at the very top of Arias, agenda with Lula, however, as the clock begins to wind down on his administration, which ends in May 2010. The SICA presidency, along with the last six months of Costa Rica's term on the U.N. Security Council (which ends December 31, 2009), provide Arias with more opportunities to build on his international reputation while in office. Starting talks on a free trade agreement between SICA and MERCOSUR, as well as launching any CAFTA-related ethanol initiative, would allow Arias to take credit for any future success. Not mentioned publicly, but perhaps discussed in their private meeting, is Arias, "Good Friend" initiative, which would include Lula in a select group of regional leaders, along with Arias, who would help craft a new USG policy towards Latin America with the Secretary and POTUS (Reftel). In short, the Arias administration made the most of da Silva's short visit, hoping to further trade, energy and international relations initiatives before leaving office next year.
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